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STATE OF MONTANA

REPORT TO THE LEGISLATURE

BOULDER RIVER SCHOOL AND HOSPITAL

Report on the Examination of
the Financial Statements
For The Two Fiscal Years Ended June 30, 1983



OFFICE OF THE LEGISLATIVE AUDITOR

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For The Two Fiscal Years Ended June 30, 1983

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ADMINISTRATIVE OFFICIALS

DEPARTMENT OF INSTITUTIONS

Carroll South	Director
James Haubein	Administrator Management Services Division
Jerry Hoover	Administrator Mental Health and Residential Service Division

BOULDER RIVER SCHOOL AND HOSPITAL

Richard Heard	Superintendent
Jim Currie	Fiscal Services Director

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u> The school reconcile its manual records of individual checking account balances to the monthly bank statement.	3
Agency Reply: Concur. See page 34.	
<u>Recommendation #2</u> The school comply with eligibility provisions of the School Foods grant.	5
Agency Reply: Concur. See page 34.	
<u>Recommendation #3</u> The school negotiate an indirect cost rate each year for federal assistance programs.	6
Agency Reply: Concur. See page 34.	
<u>Recommendation #4</u> The school establish procedures to ensure all medical services are reported on a timely basis.	8
Agency Reply: Concur. See page 34.	
<u>Recommendation #5</u> The school:	
A. Ensure payroll personnel do not have access to the approved payroll.	11
Agency Reply: Concur. See page 35.	
B. Segregate the payroll preparation and distribution functions.	11
Agency Reply: Concur. See page 35.	
C. Document distribution of all payroll warrants.	11
Agency Reply: Concur. See page 35.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #6</u>	
The school segregate the custodial and record keeping functions over inventory.	12
Agency Reply: Partially concur. See page 35.	
<u>Recommendation #7</u>	
The school:	
A. Perform a periodic inventory count of the pharmacy and laboratory supplies for inclusion in the accounting records.	14
Agency Reply: Concur. See page 36.	
B. Record all significant supplies and materials on its accounting records.	14
Agency Reply: Concur. See page 36.	
C. Reconcile the subsidiary inventory records to amounts reported on the accounting records.	14
Agency Reply: Concur. See page 36.	
D. Establish a written policy for counting and recording inventory.	14
Agency Reply: Concur. See page 36.	
<u>Recommendation #8</u>	
The school comply with state law regarding frequency of deposits.	15
Agency Reply: Concur. See page 36.	
<u>Recommendation #9</u>	
The school accrue expenditures only when a valid obligation exists.	16
Agency Reply: Concur. See page 36.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #10</u>	
The school:	
A. Ensure all adjustments to the fixed asset records are supported by sufficient evidence.	17
Agency Reply: Concur. See page 37.	
B. Record all buildings owned on the accounting records.	17
Agency Reply: Concur. See page 37.	
<u>Recommendation #11</u>	
The school record donations in the proper fund in the state treasury.	18
Agency Reply: Concur. See page 37.	

INTRODUCTION

We performed a financial/compliance audit of Boulder River School and Hospital for fiscal years 1981-82 and 1982-83. The objectives of the audit were to: 1) determine if the school's financial statements present fairly its financial position at June 30, 1983, and results of operations for each of the two fiscal years then ended; 2) determine if the school complied with applicable laws and regulations; and 3) make recommendations for improvements in the management and internal controls of the school.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the superintendent and his staff for their cooperation and assistance during the audit.

BACKGROUND

Boulder River School and Hospital's functions and responsibilities are to: 1) provide skillful and humanely administered care and treatment with full respect to the individual's dignity, for each person who is developmentally disabled; 2) provide individualized treatment with the goal of deinstitutionalization; and 3) assure adequate protection of all rights of the residents.

Boulder River School and Hospital has 265 beds. Eighty-two percent of the hospital's beds were occupied at June 30, 1983, distributed as follows:

	<u>June 30, 1983</u>		<u>Fiscal Year 82-83</u>
<u>Type of Care</u>	<u>Beds Occupied</u>	<u>Beds Available</u>	<u>Average Occupied</u>
Infirmary	6	23	3
Intermediate	<u>209</u>	<u>242</u>	<u>226</u>
Total	215	265	229

The school had 485 authorized staff positions as of June 30, 1983. At that time 446.5 of these positions were filled. Authorized professional staff positions include:

	<u>Authorized</u>	<u>Filled</u>
Physician	1	0
Clinical Director	1	0
Dental Hygienist	1	1
Cottage Supervisor	10	10
Nurse Professional II	4	2
Nurse Professional III	4	4
Psychologist	1	1
Special Education Teacher	13	10

RESIDENT ACCOUNTS

Background

Boulder River School and Hospital (BRSH) administers the funds of its residents. Resident moneys amounted to approximately \$107,000 in savings and \$6,000 in checking at June 30, 1983. The school, as trustee of these funds, has a fiduciary responsibility to ensure they are properly administered and accounted for. One objective of our examination was to ensure BRSH is fulfilling its fiduciary responsibility.

Unreconciled Accounts

The school's manual record of resident checking account balances did not reconcile to the bank statement balance at June 30, 1983. BRSH's records showed a balance of \$6,109 while the bank

statement balance was \$4,103. Officials at BRSH were not able to reconcile the difference. We further investigated month-end balances according to the manual records and bank statements for the two years under audit. There were no cases in which the two balances agreed. The unreconciled difference varied from month to month from \$1,172 in April 1982 to \$2,416 in December 1982. In all cases the unreconciled difference showed more money in the BRSH patient account records than in the bank.

Unless the school's manual record of each resident's balance is reconciled to the bank balance, the resident's true account balance is not determinable. BRSH has the fiduciary responsibility to account for all residents' moneys and be able to report the amount belonging to each resident.

RECOMMENDATION #1

WE RECOMMEND THE SCHOOL RECONCILE ITS MANUAL RECORDS OF INDIVIDUAL CHECKING ACCOUNT BALANCES TO THE MONTHLY BANK STATEMENT.

FEDERAL COMPLIANCE

The school receives a portion of its funding from federal sources. Office of Management and Budget (OMB) "Circular A-102, Attachment P," establishes audit requirements for state and local governments receiving federal assistance. Attachment P provides for independent audits of financial operations, including compliance with certain federal laws and regulations. We performed our audit of the department in accordance with the standards of OMB "Circular A-102, Attachment P."

We reviewed the major compliance areas in the School Foods and Federal Emergency Management Agency grants. Areas reviewed include:

1. eligibility determination,
2. reporting systems,
3. reimbursement of indirect costs, and
4. cost allowability.

During our review we noted compliance problems in the following areas:

--Participant Eligibility - School Foods Program

--Indirect Cost Reimbursement

Each of these areas is discussed in separate sections beginning on page 5 of this report.

We determined the effects of noncompliance on program accomplishments and the allowability of costs. In the following sections of our audit report we discuss compliance problems requiring disclosure in accordance with Attachment P. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

As a result of our review, it is our opinion that the deficiencies noted did not significantly affect the successful operation of the programs. It is our opinion the deficiencies noted did significantly affect the allowability of costs in conformity with program regulations for the School Foods program.

Improper Reimbursement - School Foods Program

The school received cost reimbursements of \$4,877 for meals served to residents who were ineligible under provisions of the

School Foods program. The provisions provide that reimbursement may be received for meals served to residents under the age of 21. BRSH claimed reimbursement for residents until they reached 22 years of age. School officials said they understood that residents 21 and under were eligible rather than only residents under 21. The school received \$29,812 and \$21,500 in fiscal years 1981-82 and 1982-83, respectively. We question the allowability of \$4,877 of these cost reimbursements for the School Foods program.

RECOMMENDATION #2

WE RECOMMEND THE SCHOOL COMPLY WITH ELIGIBILITY PROVISIONS OF THE SCHOOL FOODS GRANT.

Indirect Cost Reimbursement

Boulder River School and Hospital did not negotiate for reimbursement of indirect costs incurred in the administration of federal grant programs for the two fiscal years under audit as required by state law. The school received \$59,639 in fiscal year 1981-82 and \$26,009 in fiscal year 1982-83 for their Title I program. In fiscal year 1983-84, BRSH negotiated an indirect cost rate of 7.44 percent for the Title I program. Using this rate as an estimate, BRSH could have received indirect cost reimbursement of \$4,437 and \$1,935 in fiscal years 1981-82 and 1982-83, respectively. The state General Fund does not recover the cost of administering federal grants in the absence of indirect cost reimbursement from the federal government.

Our prior audit included the recommendation that the school negotiate an indirect cost reimbursement rate. BRSH did not negotiate for fiscal year 1982-83 because the Department of Institutions had instructed them to wait until a uniform method to be used by all institutions was designed. The method was not designed in time for fiscal year 1982-83 negotiations.

RECOMMENDATION #3

WE RECOMMEND THE SCHOOL NEGOTIATE AN INDIRECT COST RATE EACH YEAR FOR FEDERAL ASSISTANCE PROGRAMS.

REIMBURSEMENTS

Background

The Department of Institutions is required by law to collect and process per diem and ancillary payments for the care of residents at Boulder River School and Hospital and four other institutions. The department assesses care and custody costs for these services based upon the resident's ability to pay.

The department processes per diem and ancillary service charges on behalf of the school on its Automated Billing and Accounts Receivable System (ABARS). The department inputs resident service care information and resident eligibility information into ABARS, which computes the monthly billings for services provided to residents. ABARS assigns a standard cost to each service and prints an itemized monthly statement for each resident. Billings are then prepared based on the resident's ability to pay and eligibility for private or federally subsidized insurance.

Unrecorded Medical Services

BRSB personnel did not report all services performed to the department's central office during the audit period. Through interview with BRSB personnel, we determined some services were not reported for occupational and physical therapy, radiology, speech therapy, central supplies, and outside lab work.

The following are estimates of the dollar value of services not reported to the department's central office for input on ABARS.

Speech Therapy	\$15,000
Radiology	1,200
Outside Lab Work	900
Occupational and Physical Therapy	*
Central Supplies	*

* not practical to estimate

The services were not reported for several reasons. Currently services are screened by BRSB employees and a determination is made as to whether the service is reimbursable. Only those services which are determined reimbursable are reported. Frequently, the BRSB employees misunderstand what services are eligible for reimbursement. They are also unaware that all resident service information, regardless of whether the service is reimbursable must be reported to the department's central office because the data is vital in determining the actual costs involved in operating the school.

The Department of Institutions and the school could use accurate cost data to monitor the costs of specific types of treatment such as physical therapy, laboratory tests, X-rays, medical services, and other services at the school. Such cost data could

provide management the information necessary to calculate the actual cost of services for rebilling to Medicaid or other insurance. Without actual cost data the department's reimbursement is limited to billing an average or estimated cost. These costs are frequently less than the actual cost of services.

If all services are reported for each resident, department and school management can analyze the cost of caring for each resident and evaluate fluctuations in costs of resident service activities. This would help management and the school staff provide each resident with efficient and effective care.

The hospital receives reimbursement for medical services from several sources. These sources include Medicare, Medicaid, private insurance, and the resident or his or her guardian. Any reimbursement revenue the department fails to collect is money lost to the state's General Fund. Because most residents are paying at the full amount of their ability to pay, the department would not collect for all the unreported medical services. It was not practical for us to estimate the amount of revenue lost to the General Fund because of the unreported services.

RECOMMENDATION #4

WE RECOMMEND THE SCHOOL ESTABLISH PROCEDURES TO ENSURE ALL MEDICAL SERVICES ARE REPORTED ON A TIMELY BASIS.

INTERNAL CONTROL

We have examined the financial statements of the Boulder River School and Hospital for the two fiscal years ended June 30, 1983. We issued our opinion dated September 7, 1983 on these statements. As part of our examination, we made a study and evaluation of the system of control of BRSB. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. expenditures/payables;
2. inventory;
3. payroll;
4. resident accounts;
5. revenue;
6. property, plant, and equipment;
7. federal grants; and
8. cash/receivables.

We evaluated controls over expenditures/payables, inventory, payroll, and resident accounts. Through our study, we determined the nature, timing, and extent of our auditing procedures. We performed substantive audit tests to revenue, cash/receivables, grants, and property, plant and equipment because it was more efficient to do so. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of BRSB is responsible for establishing and maintaining a system of accounting control. In fulfilling this

responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by BRSB. However, our study disclosed internal control weaknesses that could result in financial statement errors that would be difficult to detect. These weaknesses relating to payroll and inventory are discussed below.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Payroll

We noted several conditions which, when combined, represent a significant internal control weakness over the payroll processing

function. First, the approved payroll document is returned to personnel who prepares the payroll after it has been approved by school management. Second, payroll warrants are distributed by the payroll department. Third, the school does not adequately document distribution of payroll warrants. There is no written authorization on file from employees who have warrants mailed directly to the bank or their home. We also noted instances in which supervisors, picking up warrants for employees, did not acknowledge receipt of the warrants by signing for them.

The conditions noted above provide payroll personnel the opportunity to authorize the issuance of warrants for persons who have not worked during the pay period.

The school can correct the control weakness over payroll by not allowing access to the approved payroll by those employees involved in its preparation. The payroll distribution function should be completely segregated from the payroll department. Finally, the school should keep written authorization on file for warrants which are mailed and ensure supervisors acknowledge receipt of all warrants they receive.

RECOMMENDATION #5

WE RECOMMEND THE SCHOOL:

- A. ENSURE PAYROLL PERSONNEL DO NOT HAVE ACCESS TO THE APPROVED PAYROLL.
- B. SEGREGATE THE PAYROLL PREPARATION AND DISTRIBUTION FUNCTIONS.
- C. DOCUMENT DISTRIBUTION OF ALL PAYROLL WARRANTS.

Inventory

A control weakness exists in that warehouse personnel are responsible for both the custodial and record keeping functions for inventory. These personnel also conducted the year-end inventory counts. The possibility of unauthorized use of inventory and corresponding adjustment to the records exists because of this control weakness.

To maintain a strong system of internal control these duties should be segregated. The school could accomplish this by reassigning the duties of inventory record keeping to personnel who do not have physical access to inventory items.

The warehouse foreman stated the record keeping function is performed by warehouse personnel because they are familiar with the inventory system. He felt that many input errors would result if the record keeping duties were reassigned. The school should be able to minimize such errors by providing adequate training and supervision to inexperienced staff.

RECOMMENDATION #6

WE RECOMMEND THE SCHOOL SEGREGATE THE CUSTODIAL AND RECORD KEEPING FUNCTIONS OVER INVENTORY.

INCOMPLETE INVENTORY RECORDS

BRSH did not include inventories of the pharmacy, laboratory, and central supply on its accounting records. The amount of central supply inventory, \$52,205, was inadvertently left off the

accounting records. The error in omitting central supply inventory on the accounting records was due to a misunderstanding between the accounting and warehouse officials.

BRSB does not record a perpetual or periodic inventory of pharmacy and laboratory supplies. It was not feasible for us to determine the amount of inventory on hand at June 30, 1983 for these two areas. School personnel estimated pharmacy and lab inventories of \$40,000 and \$5,800, respectively, at June 30, 1983.

BRSB officials do not agree the amounts reported on the inventory subsidiary records to amounts reported on the accounting records. Inventory accounts were overstated by \$250,168 and \$761 in the General Fund and Special Revenue Fund, respectively, at June 30, 1983. The errors were due to a misunderstanding of procedures for recording year-end inventory amounts on SBAS. If accounting personnel had reconciled the amounts reported on its primary accounting records to the amounts on the subsidiary records, the errors could have been detected and corrected.

The following schedule summarizes the effect of the errors and omissions discussed above.

<u>Inventory Type or Other Adjustment</u>	<u>Amount of Misstatement</u>	
Central Supply	(\$52,205)	understatement
*Pharmacy	(40,000)	understatement
*Laboratory	(5,800)	understatement
General Fund Error	250,168	overstatement
Special Revenue Fund Error	761	overstatement
Net Overstatement	<u>\$152,924</u>	

*Amounts for these inventories were estimated because they were not counted at June 30, 1983.

State accounting policy requires the presentation of significant supplies and materials inventories as assets in the financial statements. Inventory information is also helpful as a management tool in maintaining accountability for and evaluating usage of supplies and materials.

If BRSB had established and enforced a written policy describing acceptable counting procedures, stated which inventory types should be recorded on SBAS, and required the SBAS inventory accounts be reconciled with the subsidiary records, the errors identified during our audit could have been avoided.

RECOMMENDATION #7

WE RECOMMEND THE SCHOOL:

- A. PERFORM A PERIODIC INVENTORY COUNT OF THE PHARMACY AND LABORATORY SUPPLIES FOR INCLUSION IN THE ACCOUNTING RECORDS.
- B. RECORD ALL SIGNIFICANT SUPPLIES AND MATERIALS ON ITS ACCOUNTING RECORDS.
- C. RECONCILE THE SUBSIDIARY INVENTORY RECORDS TO AMOUNTS REPORTED ON THE ACCOUNTING RECORDS.
- D. ESTABLISH A WRITTEN POLICY FOR COUNTING AND RECORDING INVENTORY.

BANK DEPOSITS

We reviewed the frequency of bank deposits by BRSB and noted the school is not in compliance with state law. The law states deposits of coin and currency greater than \$100 or total

deposits greater than \$500 should be made on a daily basis. We tested fourteen deposits and found thirteen were not made on a timely basis. School personnel were not familiar with the law regarding frequency of deposits.

Undeposited collections are susceptible to loss or theft. Infrequent deposits also decrease the effectiveness of the state's investment function. State law attempts to achieve a workable balance among risks for undeposited collections, cost of making deposits, and effectiveness of the investment function.

RECOMMENDATION #8

WE RECOMMEND THE SCHOOL COMPLY WITH STATE LAW REGARDING FREQUENCY OF DEPOSITS.

ACCOUNTING PROCEDURES - YEAR-END CUTOFF

Expenditure Accruals

BRSH improperly accrued expenditures of \$16,646 at fiscal year-end 1982-83. The total misstatement was due to three separate accrual transactions. Two of the transactions involved purchase orders which were not approved by the Department of Administration's Purchasing Division until after June 30, 1983. Contrary to state policy, the Purchasing Division instructed BRSH to accrue the expenditures. According to state accounting policy, goods ordered but not received as of fiscal year-end may be accrued only if the purchase order is issued in that fiscal year.

The other accrual was for goods originally approved by the Purchasing Division as a fiscal year 1983-84 expenditure. The

school subsequently requested the purchases be charged to fiscal year 1982-83 expenditures. BRSH made the request in June 1983, past the deadline for submitting requisitions for fiscal year 1982-83 expenditures.

RECOMMENDATION #9

WE RECOMMEND THE SCHOOL ACCRUE EXPENDITURES ONLY WHEN A VALID OBLIGATION EXISTS.

Buildings Account

BRSH officials decreased the cost of buildings and improvements by approximately \$692,000. The officials indicated they believed the reduced amount better estimated the cost of the hospital's buildings, but they were unable to produce sufficient evidence to justify the write down. In June 1981, BRSH reported buildings and improvements on the financial statements at a cost of \$6,031,336. These costs were used for Medicaid/Medicare depreciation schedules. The costs have been accepted by Medicaid officials, and were substantiated by adequate support documentation.

In June 1983 BRSH reported buildings and improvements amounting to \$5,510,590. This amount includes \$226,878 of improvements added to the campus during 1983, and it includes the deletion of cabins previously recorded at \$55,668. Also during fiscal year 1983 BRSH recorded buildings and improvements at an estimated cost of \$57,300.

We noted the hospital did not record a ranch complex that had been leased to Jefferson County. BRSH officials did not know the cost of the buildings. They estimated the cost at \$160,000. Because BRSH owns the ranch complex, the buildings should be recorded on its financial records.

The following schedule summarizes the effect of the adjustments discussed above.

Balance in June 1981	\$6,031,336
Additional Improvements in 1983	226,878
Deletion of Cabins in 1983	(55,668)
Ranch Buildings Unrecorded in 1981	160,000 *
Other Buildings or Improvements Not Recorded in 1981	57,300
Adjusted June 1983 Balance	6,419,846
June 1983 Balance Reported by BRSH	(5,510,590)
Net Understatement	<u>\$ 909,256</u>

* amount estimated

RECOMMENDATION #10

WE RECOMMEND THE SCHOOL:

- A. ENSURE ALL ADJUSTMENTS TO THE FIXED ASSET RECORDS ARE SUPPORTED BY SUFFICIENT EVIDENCE.
- B. RECORD ALL BUILDINGS OWNED ON THE ACCOUNTING RECORDS.

Donations

Boulder River School and Hospital deposits donations from private sources in the Agency Fund. These donations should be deposited in the Special Revenue Fund.

The Agency Fund is used to account for assets held by BRSH as an agent for residents at the school. Moneys received through

donations are similar to grants in that they are given to the school in order to provide benefits to residents. Because the Agency Fund is a nonbudgeted fund and requires no appropriation to spend moneys, the placement of donations in this fund circumvents the appropriation process.

RECOMMENDATION #11

WE RECOMMEND THE SCHOOL RECORD DONATIONS IN THE PROPER FUND IN THE STATE TREASURY.

PRIOR AUDIT RECOMMENDATIONS

The previous audit report on the Boulder River School and Hospital contained eleven recommendations still applicable to the school. BRSH implemented five, partially implemented three, and did not implement three of the recommendations. Recommendations which have not been implemented deal with property, plant, and equipment (page 17); inventories (page 12); and federal grants (page 5).

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

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SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheet - All Funds and Account Groups; the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types; and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Fund Types of the Boulder River School and Hospital as of June 30, 1983 and for each of the two fiscal years then ended. Except as set forth in paragraph two, our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The school could not reconcile the amount recorded on its manual resident account summaries to the amount reported by the bank. It was impractical for us to apply adequate alternative test procedures to verify the amount reported in the custodian cash account in the Trust and Agency Fund.

The school recorded private donations in the Agency Fund. These should be recorded in the Special Revenue Fund. The error overstated assets and liabilities in the Agency Fund by \$14,059 and understated assets and fund balance in the Special Revenue Fund by \$14,059. Also, revenue and expenditures were understated in the Special Revenue Fund for fiscal year 1981-82 and fiscal year 1982-83, but because of the method of accounting, it was impractical for us to determine the exact misstatement. However, we believe the misstatement to be material.

BRSB did not properly account for buildings on their accounting records. The errors caused an estimated \$909,256 understatement in the General Fixed Asset Group of Accounts.

In our opinion, except for the effects of the items discussed in paragraphs two, three and four, the financial statements referred to in paragraph one present fairly the financial position of the funds and account groups of Boulder River School and Hospital as of June 30, 1983 and the results of operations of such funds for each fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Subgrants is presented for additional analysis and disclosure purposes and is not a required part of the combined financial statements for the Boulder River School and Hospital. The accompanying Schedule of Federal Subgrants is presented on the cash basis. The schedule has been subjected to the auditing procedures applied in the examination of

the basic financial statements and, in our opinion, except for the effects of the items discussed in paragraphs two, three, and four, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James H. Gillett".

James H. Gillett, CPA
Deputy Legislative Auditor

September 7, 1983

Approved:

A handwritten signature in cursive script, appearing to read "Robert R. Ringwood".

Robert R. Ringwood
Legislative Auditor

BOULDER RIVER SCHOOL AND HOSPITAL
COMBINED BALANCE SHEET
ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1983

	<u>GOVERNMENTAL FUND TYPES</u>		<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>
<u>ASSETS</u>				
Cash	\$ 2,500	\$48,176	\$1,124,137	
Land				\$ 51,050
Buildings and Improvements				5,510,590
Equipment				1,587,892
Accounts Receivable - Receipts	4,916,842			
Due From FYE Cash Cutoff	4,757			
Merchandise Inventory	405,767	1,880		
Expense Advance to Employees	68			
Transfer to Construction Advance Account	59,131			
Available to Pay Accrued Liabilities	661,417			
Total Assets	<u>\$6,050,482</u>	<u>\$50,056</u>	<u>\$1,124,137</u>	<u>\$7,149,532</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 616,903	\$ 12,563	\$ 78	
Accrued Expenditures	44,329			
Due to State General Fund	4,119,795			
Deferred Revenue	863,688	31,836		
Property Held in Trust		1,084	1,124,059	
Total Liabilities	<u>5,644,715</u>	<u>45,483</u>	<u>1,124,137</u>	
Fund Equity				
Investment in General Fixed Assets				\$7,149,532
Fund Balance	-0-	4,573	-0-	
Reserve for Inventory	405,767			
Total Fund Equity	<u>405,767</u>	<u>4,573</u>	<u>-0-</u>	<u>7,149,532</u>
Total Liabilities and Fund Equity	<u>\$6,050,482</u>	<u>\$50,056</u>	<u>\$1,124,137</u>	<u>\$7,149,532</u>

The notes to the financial statements are an integral part of this financial statement.

BOULDER RIVER SCHOOL AND HOSPITAL
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>General Fund</u>	<u>Special Revenue Fund</u>
REVENUES:		
Medical Services	\$ 6,994,771	
Miscellaneous	4,655	
Sales of Documents, Merchandise & Property		\$ 9,367
Federal Assistance		43,576
Total Revenues	<u>6,999,426</u>	<u>52,943</u>
EXPENDITURES:		
Care and Custody	<u>10,761,795</u>	<u>55,107</u>
EXCESS OF CURRENT REVENUES UNDER CURRENT EXPENDITURES	(3,762,369)	(2,164)
Prior Year Adjustments	<u>-0-</u>	<u>(1)</u>
OTHER SOURCES (USES):		
Support From General Fund	<u>3,762,369</u>	<u> </u>
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	(2,165)
FUND BALANCE, JULY 1, 1982	<u>-0-</u>	<u>6,738</u>
FUND BALANCE, JUNE 30, 1983	<u>\$ -0-</u>	<u>\$ 4,573</u>

The notes to the financial statements are an integral part of this financial statement.

BOULDER RIVER SCHOOL AND HOSPITAL
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	<u>General Fund</u>	<u>Special Revenue Fund</u>
REVENUES:		
Medical Services	\$ 6,669,004	
Miscellaneous	14,640	
Sales of Documents, Merchandise & Property		\$ 10,627
Federal Assistance		344,121
Total Revenues	<u>6,683,644</u>	<u>354,748</u>
 EXPENDITURES:		
Care and Custody	<u>9,920,684</u>	<u>317,874</u>
 EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	 (3,237,040)	 36,874
 Prior Year Adjustments	 <u>1,645,321</u>	 <u>(32,384)</u>
 OTHER SOURCES (USES):		
Support From General Fund	 <u>1,591,719</u>	 <u> </u>
 EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	 -0-	 4,490
 FUND BALANCE, JULY 1, 1981	 <u>-0-</u>	 <u>2,248</u>
 FUND BALANCE, JUNE 30, 1982	 <u>\$ -0-</u>	 <u>\$ 6,738</u>

The notes to the financial statements are an integral part of this financial statement.

BOULDER RIVER SCHOOL AND HOSPITAL
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL AND SPECIAL REVENUE FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Medical Services	\$ 4,950,000	\$ 6,994,771	\$2,044,771			
Miscellaneous	8,500	4,655	(3,845)			
Sale of Documents, Merchandise, and Property				\$ 10,567	\$9,367	\$ (1,200)
Federal Assistance				89,803	43,576	(46,227)
Total Revenues	<u>4,958,500</u>	<u>6,999,426</u>	<u>2,040,926</u>	<u>100,370</u>	<u>52,943</u>	<u>(47,427)</u>
EXPENDITURES:						
Care and Custody	<u>11,134,384</u>	<u>10,943,868</u>	<u>190,516</u>	<u>96,961</u>	<u>55,107</u>	<u>41,854</u>
EXCESS OF CURRENT REVENUES UNDER CURRENT EXPENDITURES	(6,175,884)	(3,944,442)	2,231,442	3,409	(2,164)	(5,573)
Prior Year Adjustments	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1)</u>	<u>(1)</u>	<u>-0-</u>
OTHER FINANCING SOURCES (USES):						
Support From General Fund	<u>6,175,884</u>	<u>3,944,442</u>	<u>(2,231,442)</u>			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	3,408	(2,165)	(5,573)
FUND BALANCE, JULY 1, 1982	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,738</u>	<u>6,738</u>	<u>-0-</u>
FUND BALANCE, JUNE 30, 1983	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 10,146</u>	<u>\$ 4,573</u>	<u>\$ (5,573)</u>

The notes to the financial statements are an integral part of this financial statement.

BOULDER RIVER SCHOOL AND HOSPITAL
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Medical Services	\$ 6,256,501	\$6,669,004	\$ 412,503			
Miscellaneous	2,500	14,640	12,140			
Sale of Documents, Merchandise, and Property				\$ 10,273	\$ 10,627	\$ 354
Federal Assistance				112,685	344,121	231,436
Total Revenues	<u>6,259,001</u>	<u>6,683,644</u>	<u>424,643</u>	<u>122,958</u>	<u>354,748</u>	<u>231,790</u>
EXPENDITURES:						
Care and Custody	<u>10,176,757</u>	<u>9,960,574</u>	<u>216,183</u>	<u>319,836</u>	<u>317,874</u>	<u>1,962</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(3,917,756)	(3,276,930)	640,826	(196,878)	36,874	233,752
Prior Year Adjustments	<u>1,645,321</u>	<u>1,645,321</u>	<u>-0-</u>	<u>(32,384)</u>	<u>(32,384)</u>	<u>-0-</u>
OTHER FINANCING SOURCES (USES):						
Support From General Fund	<u>2,272,435</u>	<u>1,631,609</u>	<u>(640,826)</u>			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(229,262)	4,490	233,752
FUND BALANCE, JULY 1, 1981	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,248</u>	<u>2,248</u>	<u>-0-</u>
FUND BALANCE, JUNE 30, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$(227,014)</u>	<u>\$ 6,738</u>	<u>\$233,752</u>

The notes to the financial statements are an integral part of this financial statement.

BOULDER RIVER SCHOOL AND HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS

June 30, 1982 and June 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Boulder River School and Hospital is an institution of the Department of Institutions which operates under a superintendent appointed by the director of the Department of Institutions. Our program consisted of the care and custody program during fiscal years 1982 and 1983.

The following is a summary of the significant accounting policies.

A. Basis of Presentation

The financial statements are prepared from the Statewide Budgeting and Accounting System. Accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenditures.

The following fund types are used:

General Fund - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This fund contains the state and federal and private revenue entities at the institution. Legislative appropriation is required to spend from this fund.

Trust and Agency Fund - accounts for assets held in trust or as an agent by the department for others. The major sources of receipts to this fund are donated funds, resident income, and care and maintenance funds.

General Fixed Assets Account Group - accounts for fixed assets and equipment purchased by Boulder River School and Hospital. These funds are accounted for in the Supply Inventory Monitoring System (SIMS) and in the Statewide Budgeting and Accounting System.

B. Basis of Accounting

The modified accrual basis of accounting is followed by the governmental and fiduciary fund types. Under the modified accrual basis of accounting, revenues are recorded when received in cash unless susceptible to accrual; i.e., measurable and available to finance the institution's operations or of a material amount and not recorded at the normal time of receipt. Expenditures are recorded when a valid obligation is incurred.

C. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. At year-end, in accordance with state policy, major qualifying encumbrances are reclassified as payables and are charged to expenditures.

D. Vacation and Sick Leave

Upon termination qualifying employees are paid at their current pay rate for 100 percent of accumulated vacation and 25 percent of unused sick leave.

At June 30, 1983 the liability amount associated with unused accumulated vacation is \$348,055; sick leave is \$133,948.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement Division (PERD) or Teachers' Retirement System (TRS). These plans are administered by the state of Montana. PERD eligible employees contribute 6 percent of their salary to PERD, while the institution contributes 6.32 percent of the employees' salaries and wages to the plan. Employees under TRS contribute 6.187 percent and the institution 6.463 percent of the employees' salaries and wages. The institution's contribution to the plans for the fiscal years ended June 30, 1982 and June 30, 1983 were \$413,745 and \$458,940, respectively. At July 1, 1982, the Public Employees' Retirement Division and at July 1, 1981 the Teachers' Retirement System were determined to be actuarially sound as reported by the systems' actuary. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for members of the plans employed by the institution.

3. INSURANCE

Boulder is insured by Montana's insurance program administered by the Department of Administration.

4. BUDGET INFORMATION

A fixed annual basis of budgeting is utilized. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. Appropriations control financial operations during the fiscal year. At

the end of each year, General Fund and Special Revenue Fund appropriation authority reverts to the fund of original appropriation. The reverted appropriation authority may be used in the subsequent year as authorization for valid prior year obligations. Budget amendments represent the authorization to spend funds not available for consideration by the Legislature. They are subject to approval of the Governor.

5. INVENTORY

Inventory is valued at the most recent price paid for each item. This method approximates the lower of cost or market on a first-in/first-out basis in that the inventory at the school is generally comprised of rapid turnover items.

6. EMPLOYEE MEALS

The institution provides one meal per shift to all employees as a historical or union benefit. The approximate value of these meals was \$261,000 and \$290,000 in fiscal years 1981-82 and 1982-83, respectively.

7. RECONCILIATION - BUDGET AND GAAP BASIS

The Combined Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is adjusted to include budgeted expenditure accruals which do not satisfy the GAAP criteria for accruals.

The differences are reflected in expenditures as noted below:

<u>Fiscal Year 1982-83</u>	<u>Budget</u>	<u>GAAP</u>	<u>Difference</u>
General Fund Expenditures	\$10,943,868	\$10,761,795	\$182,073
<u>Fiscal Year 1981-82</u>			
General Fund Expenditures	9,960,574	9,920,684	39,890

8. CONTINGENT LIABILITIES AND CLAIMS

The litigation involves Warm Springs State Hospital as a defendant in a class action suit instituted by patients at the hospital. Boulder River School and Hospital residents are included as plaintiffs in the class action. The suit alleges that the state hospital lacks the necessary legal authority to control patients' money and to pay reimbursement charges. The outcome of this suit is uncertain at the date of this report. Pending settlement of the suit, BRSH had withheld payment to the General Fund in the amount of \$1,001,103 at June 30, 1983.

BOULDER RIVER SCHOOL AND HOSPITAL
MONTANA DEPARTMENT OF INSTITUTIONS
SCHEDULE OF FEDERAL SUBGRANTS
FISCAL YEARS ENDING JUNE 30, 1982 AND 1983

	<u>Grant Number</u>	<u>1981-82 Receipts</u>	<u>Grant Number</u>	<u>1982-83 Receipts</u>
<u>U.S. Department of:</u>				
<u>Education</u>				
Title 1	81-32-6003-1411A	\$ 59,639	83-32-6003-1413A	\$26,009
Title IV B	82-24-6003-3318B	227		
Chapter 2			83-39-6003-1356B	490
 <u>Agriculture</u>				
School Nutrition	0920-6003	25,214	10920-6003	25,225
 <u>Housing and Urban Development</u>				
Federal/Emergency Management Agency	049-23125	<u>16,551</u>	049-23125	<u>27,411</u>
Total		<u>\$101,631</u>		<u>\$79,135</u>

NOTE: The schedule above has been prepared on a cash basis.

AGENCY RESPONSE

DEPARTMENT OF INSTITUTIONS



TED SCHWINDEN GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 449-3930

HELENA, MONTANA 59620

November 1, 1983

RECEIVED

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MONTANA LEGISLATIVE AUDITOR

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Gentlemen:

We have reviewed the audit report prepared by the Office of the Legislative Auditor on the Boulder River School and Hospital.

The report provides a very welcome service and is sincerely appreciated.

Our response to recommendations is attached.

Sincerely,

A handwritten signature in ink, appearing to read "Carroll V. South".

CARROLL V. SOUTH
Director
Department of Institutions

CVS:bt

Attachment

Boulder River School and Hospital
Audit Response

RECOMMENDATION #1

WE RECOMMEND THE SCHOOL RECONCILE ITS MANUAL RECORDS OF INDIVIDUAL CHECKING ACCOUNT BALANCES TO THE MONTHLY BANK STATEMENT.

Response #1

Concur. A reconciliation was completed each month with consideration being given to known errors and transfer overlaps, however, these were not identified specifically enough by individual to provide an easily accessible audit at a later date. We have installed new procedures that will identify any adjustments more specifically on the manual record summary page each month.

RECOMMENDATION #2

WE RECOMMEND THE SCHOOL COMPLY WITH ELIGIBILITY PROVISIONS OF THE SCHOOL FOODS GRANT.

Response #2

Concur. It was our understanding that all residents through the age of 21 were eligible for the school foods program. In the future, only those residents to the age of 21 will be included in this program.

RECOMMENDATION #3

WE RECOMMEND THE SCHOOL NEGOTIATE AN INDIRECT COST RATE EACH YEAR FOR FEDERAL ASSISTANCE PROGRAMS.

Response #3

Concur. A method of calculating the indirect cost rate was just recently reviewed and approved by OPI. An indirect cost rate was negotiated for FY84, and will continue to be negotiated for each year hereafter.

RECOMMENDATION #4

WE RECOMMEND THE SCHOOL ESTABLISH PROCEDURES TO ENSURE ALL MEDICAL SERVICES ARE REPORTED ON A TIMELY BASIS.

Response #4

Concur. Procedures will be established to ensure all services provided to residents are billed.

RECOMMENDATION #5

WE RECOMMEND THE SCHOOL:

- A. ENSURE PAYROLL PERSONNEL DO NOT HAVE ACCESS TO THE APPROVED PAYROLL.
- B. SEGREGATE THE PAYROLL PREPARATION AND DISTRIBUTION FUNCTIONS.
- C. DOCUMENT DISTRIBUTION OF ALL PAYROLL WARRANTS.

Response #5

- A. Concur. Payroll personnel will no longer have access to the prepayroll after it has been approved.
- B. Concur. Payroll personnel will no longer be responsible for the check distribution function.
- C. Concur. This recommendation has already been implemented. There is a written authorization on file for all warrants mailed and supervisors acknowledge receipt of all warrants they receive and are responsible for.

RECOMMENDATION #6

WE RECOMMEND THE SCHOOL SEGREGATE THE CUSTODIAL AND RECORD KEEPING FUNCTIONS OVER INVENTORY.

Response #6

We partially concur with this recommendation. We agree that all adjusting entries be reviewed and approved by the Fiscal Services Director prior to input into the system. In addition, all routine input will be reviewed randomly and periodically by business office personnel.

RECOMMENDATION #7

WE RECOMMEND THE SCHOOL:

- A. PERFORM A PERIODIC INVENTORY COUNT OF THE PHARMACY AND LABORATORY SUPPLIES FOR INCLUSION IN THE ACCOUNTING RECORDS.
- B. RECORD ALL SIGNIFICANT SUPPLIES AND MATERIALS ON ITS ACCOUNTING RECORDS.

- C. RECONCILE THE SUBSIDIARY INVENTORY RECORDS TO AMOUNTS REPORTED ON THE ACCOUNTING RECORDS.
- D. ESTABLISH A WRITTEN POLICY FOR COUNTING AND RECORDING INVENTORY.

Response #7

- A. Concur. An annual inventory will be conducted in the pharmacy and laboratory and the amount will be included in the accounting records.
- B. Concur. This recommendation will be implemented concurrently with the implementation of Recommendation #7A.
- C. Concur. Accounting records and subsidiary inventory records will be reconciled after the end of the fiscal year.
- D. Concur. A complete and comprehensive policy for counting and recording inventory is being developed and will be followed when the next supply inventory is being conducted.

RECOMMENDATION #8

WE RECOMMEND THE SCHOOL COMPLY WITH STATE LAW REGARDING FREQUENCY OF DEPOSITS.

Response #8

Concur. Deposits are now being made on a timely basis and are now in compliance with the law regarding frequency of deposits.

RECOMMENDATION #9

WE RECOMMEND THE SCHOOL ACCRUE EXPENDITURES ONLY WHEN A VALID OBLIGATION EXISTS.

Response #9

Concur. Expenditures will be accrued only when a valid obligation exists. All of the requisitions leading to the purchase orders cited on this recommendation were submitted to the State Purchasing Division prior to the deadline for submitting requisitions for fiscal year 1982-83 expenditures. Two of these requisitions were intended as FY83 purchases and in the judgment of the Purchasing Division were valid obligations. The other requisition was originally intended as an FY84 obligation. It was later determined, however, that it should have been an FY83 obligation.

RECOMMENDATION #10

WE RECOMMEND THE SCHOOL:

- A. ENSURE ALL ADJUSTMENTS TO THE FIXED ASSET RECORDS ARE SUPPORTED BY SUFFICIENT EVIDENCE.
- B. RECORD ALL BUILDINGS OWNED ON THE ACCOUNTING RECORDS.

Response #10

- A. Concur. At the time of the last audit, Boulder River School and Hospital did not record buildings and improvements on its inventory or accounting records. Many of the buildings at Boulder River School and Hospital are very old, and it was difficult to obtain an acquisition value figure. An adjustment was made to the financial statements for the audit period ending June 30, 1981. The best information available at that time as to the actual acquisition cost of the buildings was the Medicaid/Medicare depreciation schedule. The origin of the value figures on this schedule is unknown. In the process of entering the value of the buildings and improvements on the inventory records, a document prepared by the Department of Administration in 1966 showing the acquisition value of the buildings at Boulder River School and Hospital was discovered. Boulder River School and Hospital officials felt this document was a more reliable barometer of actual building acquisition value, and therefore used it in entering the amounts onto the inventory records.
- B. Concur. The buildings at the ranch complex will be included in the inventory and accounting records.

RECOMMENDATION #11

WE RECOMMEND THE SCHOOL RECORD DONATIONS IN THE PROPER FUND IN THE STATE TREASURY.

Response #11

Concur. This will be accomplished as soon as the proper spending authority for the fund can be received.

